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C O N F I D E N T I A L SECTION 01 OF 02 ISLAMABAD 002404

SIPDIS

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TAGS: ECON EFIN EINV ETRD ELAB PGOV PREL PK

SUBJECT: FINANCE MINISTER QAMAR WELCOMES POSSIBILITY OF FOOD ASSISTANCE

Classified by: Ambassador Anne W. Patterson for reasons 1.4 (b) and (d)

Summary

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¶1. (C) Summary: The Ambassador met with Naveed Qamar, the Acting Minister of Finance July 10. He welcomed the possibility of U.S. food assistance, asked for a briefing from Ministry of Finance staff regarding the bilateral investment treaty (BIT), previewed Under Secretary Jeffery's upcoming trip to Pakistan, and asked for U.S. support when the USD 500 million World Bank budget support loan is presented to the Board. End summary.

Minister says no SPS concerns for U.S. assistance

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¶2. (C) The Ambassador met with Acting Finance Minister Naveed Qamar on July 11. She indicated that the U.S. government was considering food assistance, which Qamar warmly welcomed. When the Ambassador raised the possibility that Pakistani sanitary-phytosanitary (SPS) restrictions which excluded U.S. wheat from Pakistani tenders and might block shipment of wheat, Qamar replied that "he was sure that the government can relax rules" for U.S. wheat as long as it is human consumption grade. He requested that specifics of any potential shipments be communicated to the GOP in advance to avoid any potential problems. The Ambassador said we needed a clear answer before we proceeded. He added that the GOP has purchased soft red wheat to date since it is more compatible with the wheat grown in Pakistan, but was issuing a tender for soft white wheat as well. In response to the Ambassador's question, Qamar told her that the GOP would raise the government purchase price of wheat -- which is very distorting -- in September.

World Bank loan

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¶3. (C) Qamar asked for U.S. support when the USD 500 million World Bank loan is presented to the Board. Farrukh Qayyum, the Finance Secretary, explained that the loan negotiation was still not complete, and that the GOP found the "dialogue very intrusive." (Note: World Bank Islamabad staff told Economic Counselor that the Bank wants to see how the price adjustments will be implemented. They remarked that while the budget numbers are in line with phasing out fuel subsidies by the end of December 2008 and power subsidies by June 2009, there is no evidence of implementation. The loan cannot be finalized until the Bank returns from its summer recess in August once negotiations are completed. End note.) Qayyum suggested that

U.S. budget support would be a good deliverable for the Prime Minister's upcoming visit.

Coalition Support Funds and Foreign Military Financing

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¶4. (C) The Ambassador updated Qamar on Coalition Support Fund (CSF) reimbursements. The December 2007 - March 2008 claim has been at the Office of the Secretary of Defense Comptroller's office for approximately one month. The Embassy validated the April 2008 USD 126.66 million claim July 9. She cautioned about the possibility that this program may run out of funds, given the increased reimbursements which will run at USD 1.1-1.2 billion for calendar year 2008.

¶5. (C) On the mid-life F-16 upgrade, Qayyum told the Ambassador that the USD 140 million payment had been made, and that the Air Force had not asked for the USD 61 million payment. The Ambassador remarked that the Air Force wants to use the foreign military financing facility for the F-16 upgrade, adding despite our efforts, it was unlikely to happen before the end of July.

Bilateral Investment Treaty (BIT)

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¶6. (C) The Ambassador asked whether BIT negotiations could be revived, citing that the obstacles seem "bureaucratic." Board of Investment Secretary (and former Finance Secretary) Waqar Ahmed replied that the GOP wants a copy of the agreed minute from the last negotiating session in March 2006. Ahmed said that there were five unresolved issues, but did not cite them. The Ambassador said that

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while it would be difficult to conclude the BIT before the Prime Minister's visit, mentioning resumption of negotiations in the communiqu would provide a positive sign to the business community. The Minister asked his staff to brief him. Economic Section staff will follow up.

Reconstruction Opportunity Zones (ROZs)

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¶7. (C) In response to the Ambassador's question regarding GOP reaction to the House ROZ legislation, Qayyum commented that the "labor regime is very restrictive" and that it may not be possible to implement in the Federally Administered Tribal Areas (FATA). The Commerce Ministry will address this issue. He emphasized the importance of textiles to Pakistan's economy because of its farm to factory value chain and employment of women.

Reserves

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¶8. (C) The Ambassador asked about the state of Pakistan's foreign currency reserves. The Minister remarked that they were "under pressure" and that the government had asked the Saudis and other Gulf States for help, particularly for deferred oil payments, adding that they had received "some positive noises."

Economic Dialogue/Jeffery visit

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¶9. (C) The Secretary and Minister agreed to hold the Economic Dialogue the week of August 11 in Islamabad, and welcomed a meeting with Under Secretary Jeffery when he visits Islamabad.

Comment

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¶10. (C) Comment: Qamar seemed relaxed, particularly in light of Pakistan's worsening economy. He did not know whether he would accompany the Prime Minister to Washington; the Ambassador encouraged him to do so. We will follow up on the BIT and wheat SPS issues.
End comment.

PATTERSON